

**STATE OF WASHINGTON
DEPARTMENT OF NATURAL RESOURCES
Doug Sutherland, Commissioner of Public Lands**

OIL AND GAS LEASE

Agreement No. 63-0 _____

THIS AGREEMENT is made by and between the STATE OF WASHINGTON, acting by and through the Department of Natural Resources (hereinafter "State") and _____, (hereinafter "Lessee").

DEFINITIONS

For the purpose of this Agreement the following definitions shall apply:

Oil or Gas: Oil or gas shall mean liquid or gaseous hydrocarbon substances found to exist naturally within the Property and that have not been injected into the Property by the Lessee or any other person.

Associated Substances: All gaseous or liquid substances produced in association with oil or gas, but it shall not include coal, lignite, oil shale, similar solid hydrocarbons, minerals, water, steam or any geothermal resources.

Contract Year: The annual period between the Commencement Date and each anniversary of the Commencement Date. The Contract Year shall be identified by the year in which the Contract Year began.

Unitize: The operation of all or part of a field as a single entity for operating purposes.

In-Place Oil and Gas: The total amount of Oil and Gas calculated to be remaining in the Property, using standard industry methods, without regard to the ability to recover such oil and/or gas.

SECTION 1 TITLE AND WARRANTIES

1.01 Property. State leases to the Lessee in consideration of the rents and royalties to be paid and the covenants and agreements to be kept and performed by Lessee, the following described land in _____ County, Washington (hereafter "Property"):

Subject to:

1.02 No Warranty of Title. This Agreement is granted without warranty of title, either express or implied, as regards oil and gas mineral rights, and covers only State's present interest in the Property. No representations, warranties or guarantees of any kind are made by the State, and the State shall not be subject to any liabilities whatsoever on account of any shortage or defect in title to any part of the Property. The Lessee represents that Lessee has investigated the title and is satisfied with such title as the State may have. State hereby disclaims any covenant of quiet enjoyment or peaceful possession of the Property.

1.03 Condition of Property. Taking possession of the Property by Lessee shall constitute acknowledgment by Lessee that the Property is in good and tenantable condition and that the Property is in all respects suitable for the uses permitted in Section 3 (Permitted Use). The State has no obligation to make any repairs, additions, or improvements thereto and expressly disclaims any warranty that the Property is suitable for such use.

SECTION 2 TERM

Lessee is awarded a lease to commence in the future contingent upon completion of SEPA by the State. Lessee' right to occupancy and State's right to rent shall not arise until State gives lessee notice in writing that the SEPA process is complete, including any SEPA appeal process, and specifies a specific Commencement Date for this lease. State reserves the right to terminate this contract for a lease if the State determines in the exercise of its reasonable judgment that termination is consistent with the final determination of the SEPA process.

In the event the SEPA review indicates that mitigation measures are necessary, Lessee shall either (1) incorporate such mitigation measures into the plan of operation as provided in Section 6.04 or (2) terminate this lease without further obligation. Failure to incorporate the mitigation measures into the plan of operations shall be deemed an election to terminate the lease.

The right of possession shall commence, if at all, on the date (Commencement Date) set forth in the Notice of Commencement sent by the State, which notice shall become part of this lease. The lease shall continue from the Commencement Date until a period ten years later (Termination Date). The term shall be extended so long as the Lessee shall produce oil, gas or associated substances in paying quantities or so long as the Lessee receives an allocation or production because of pooled or unitized interest production and, in either case, Lessee is in compliance with the provisions of this Agreement. The Term of this agreement shall be further extended as provided by law.

SECTION 3 PERMITTED USE

Permitted Use. The Lessee shall have the sole and exclusive right to explore for, drill, extract, remove, treat, process and dispose of all the oil, gas and associated substances from the Property during the term of the Agreement as set forth in the approved plan of operation. Further, the Lessee shall have the right to construct, use and maintain within the Property roads, pipelines, utility and power lines and other structures and improvements, subject to the approved plan of operation.

*****USE FOR agreements WHERE PART OF Property IS RESTRICTED TO POOLING/DIRECTIONAL DRILLING - (Restriction B) [O&G2]***

Permitted Use. For those lands described in Exhibit 1 under clause "A" the Lessee shall have the sole and exclusive right to explore for, drill, extract, remove, treat, process and dispose of all oil, gas and associated substances from the Property as set forth in the approved plan of operation. Further, the Lessee shall have the right to construct, use and maintain within the Property roads, pipelines, utility and power lines and other structures and improvements, subject to the approved plan of operations. The Property described in Exhibit 1 under clause "B" may be accessed only by directional drilling from adjacent lands to extract, remove, treat, process and dispose of all oil, gas and associated substances from the Property as set forth in the approved plan of operation. No rights outside the Property are being granted by this Agreement, and all surface disturbances on the Property described in clause B are prohibited.

*****USE FOR Agreements RESTRICTED TO POOLING/DIRECTIONAL DRILLING (Restriction A) -- [O&G3] Permitted Use. The Property may be accessed.***

Permitted Use. The Property may be accessed only by directional drilling from adjacent lands to extract, remove, treat, process and dispose of oil, gas and associated substances from the Property as set forth in the approved plan of operation. No rights outside the Property are being conveyed by this Agreement. All surface disturbances on the Property are prohibited.

SECTION 4 PAYMENT

4.01 Rental. The Lessee shall pay to the Department of Natural Resources at Olympia, Washington 98504-7041, in advance, the required minimum rent of \$1.25 per acre annually for the first through the fifth year of the term of this agreement, and \$2.50 per year for the sixth through tenth year of the term of this agreement, on or before the Commencement Date and each anniversary date of this Agreement for subsequent Contract Years during the Term of the Agreement or until such time as royalties accrue, which ever occurs first. If the Agreement is extended as described in Section 2, the minimum rent shall be \$10.00 per acre annually. When royalties accrue, the minimum rent shall be replaced by a minimum royalty as provided in 4.04. Receipt of first year's rent and bonus bid is hereby acknowledged.

4.02 Royalties. The State, at its option, may receive royalties either as payment in cash or in kind. Computation of royalties to be paid to State shall be as defined in WAC 332-12-330 as now written or hereafter modified. The Lessee shall pay royalty to State as follows:

- (a) On oil produced, saved and sold, Twelve and One-half Percent (12½%).
- (b) On gas, including casinghead gas or other hydrocarbon substances, produced from the Property saved and sold or used off the Property or in the manufacture of gasoline or other products derived therefrom, Twelve and One-half Percent (12½%), based on market value at the well or point of sale, whichever is higher.
- (c) On associated substances produced, saved and sold, Twelve and One-half Percent (12½%).

4.03 In Kind Payment. In lieu of receiving royalty payment for the market value of the state's royalty share of oil or gas, the State may elect that such royalty share of oil or gas be delivered in kind at the mouth of the well into tanks or pipelines provided by the State.

4.04 Minimum Production Royalty. At the time Lessee begins production, the rental shall be replaced by a minimum royalty of five dollars (\$5.00) per acre or fraction thereof. Minimum royalties shall be paid at the end of the Contract year in which production starts and annually at the end of the Contract year for the remainder of the term. When the Production Royalty paid during a Contract Year is greater than the Minimum Royalty due for that year, the Minimum Royalty shall be deemed paid. When the Production Royalty paid for a Contract Year is less than the Minimum Royalty due for that year, Lessee shall pay the difference between the Production Royalty paid and the Minimum Royalty due. Minimum Royalties are nonrefundable and nontransferable. At any time an oil or gas well is shut-in, pursuant to WAC 332-12-390, rental payments pursuant to Subsection 4.01, rather than minimum royalty, shall be paid as provided herein.

4.05 Production Royalties - Time of Payment. The Lessee shall make monthly royalty payments to the Department of Natural Resources at Olympia, Washington 98504-7016, within thirty (30) days after start-up of production, or alternately, on a schedule mutually agreed to by the Lessee and the State, as set forth in the Plan of Operations, for all oil, gas or other associated substances produced from the Property. The Lessee shall submit a statement showing quantities and qualities of production or allocated production together with such other information as the State may require. All payments shall be made by cash, certified check, money order or in other manner acceptable to State.

4.06 Counterclaim, Set off, or Abatement of Rent. Rent and all other sums payable by Lessee hereunder shall be paid without the requirement of prior notice or demand by State and shall not be subject to any counterclaim, set off, deduction or defense and without abatement. The obligations and liabilities of Lessee hereunder shall in no way be released, discharged or otherwise affected, except as expressly provided in Section 12 (Condemnation).

4.07 Interest Charged for Past-Due Rent and Other Sums Owed. Lessee shall pay interest at the rate of one percent (1%) per month until paid, on rent or other sums owing under the terms of this Agreement commencing the date such rent or other sum is due and payable. In the event State pays any sum or incurs any expense which Lessee is obligated to satisfy or pay under this

Agreement, or which is made on behalf of Lessee, State shall be entitled to receive reimbursement thereof from Lessee upon demand, together with interest thereon from the date of expenditure at the rate stated above.

4.08 Late Charge for Failure to Pay. In the event the Lessee fails to make any payment of rent or royalty due hereunder upon the date due, the State shall be entitled to collect from the Lessee a late charge equal to six percent (6%) of the amount of the delinquent payment.

4.09 Contracts. The Lessee shall file with the State, not later than thirty (30) days after the effective date thereof, copies of all contracts for the disposition of oil, gas and associated substances, unless the Lessee is relieved of this requirement in writing by the State, in which event the contracts shall be made available for inspection by the State or its authorized agents.

4.10 Records and Reports. The Lessee shall prepare, maintain and keep for a period of five (5) years following the year of production, a clear, complete and detailed record and accounting system of all business affecting royalties due the State including records and reports pertaining to offset wells operated by Lessee. The State shall at all reasonable times have access to any and all books, records and files of all kinds for the purpose of checking and enforcing the provisions of this Agreement.

4.11 Right to Examine Books and Records. The acceptance by the State of royalties shall be without prejudice to the State's right to an examination of the Lessee's books and files in order to verify the amount of production or income received by the Lessee from the Property.

4.12 Audit. At its option, the State may cause a complete audit to be made of the Lessee's business affairs and records relating to the Property for the period covered by any statement or report issued by the Lessee; PROVIDED, the Lessee has received 48 hours' written notice. If such an audit should disclose a liability for royalties in excess of those computed and paid by the Lessee for such period, Lessee shall promptly remit that amount to the State. Further, if such liability exceeds royalties paid by five percent (5%) or more, the Lessee shall pay the State audit costs in addition to the liability.

4.13 Measurements. All production shall be accurately measured using standards established by the American Gas Association (AGA) and/or the American Petroleum Institute (API) and all measuring devices shall be tamper proof.

4.14 Shared Subsurface Estate. The Lessee shall pay rental and production royalty rates in proportion to the State's subsurface ownership of the Property.

4.15 Form of Currency. All payments shall be made in U.S. Dollars.

SECTION 5 RESERVATIONS

5.01 Compliance. The State shall have access to the Property at all reasonable times to secure Agreement No.:

compliance with this Agreement.

5.02 Multiple Use Policy. The State has a policy of multiple use of its lands to permit the use and development of the surface and subsurface estates including oil, gas, chemicals, minerals, water and other natural resources under different types of leases and use agreements to allow the fullest possible utilization and development. This Agreement relates to one of the types of uses and development of the resources upon the Property, and it is intended that operations and development under this Lease shall be conducted by such methods and in such a manner to avoid unreasonably interfering with the State's reserved rights or the rights of third parties.

5.03 Reserved Surface and Subsurface Rights. State reserves the right to sell, lease or otherwise dispose of surface resources, including but not limited to timber and other valuable materials, and subsurface interests including but not limited to minerals, fossils, coal, gas, [underground gas storage capacity], or other material not conveyed under this Agreement so long as it does not unreasonably interfere with the rights of the Lessee granted herein. The State shall also have the right to enter upon said land and remove same. State reserves the right to sell, exchange, transfer or otherwise dispose of all or part of the Property subject to this Agreement.

5.04 Reserved Right to Roads. The State shall have the right to use all existing roads and/or any road constructed or reconstructed by the Lessee under this Agreement for any and all purposes deemed necessary or desirable in connection with the control, management, harvest and administration of State-owned land or the resources thereof. State reserves the right to issue rights of way and easements upon the Property so long as such rights of way or easements do not unreasonably interfere with any of Lessee's approved operations.

5.05 Duty to Compensate for Surface Damages. The Lessee shall not commence operations until making arrangements for compensation to the owner of surface rights, including damages caused by its operations to growing crops and timber, and improvements in accordance with RCW 79.14.040, and WAC 332-12-300.

5.06 Waiver. Lessee is aware that State has reserved certain rights under this Agreement including but not limited to the right to manage the Property for and harvest valuable materials as defined in RCW 79.02.010(12) and other natural resources such as but not limited to minerals and coal not conveyed under this Agreement. Lessee acknowledges that State may engage in certain activities related to the management and harvest of the valuable materials or other natural resources so long as such activities do not unreasonably interfere with the Lessee's use of the Property. In addition, Lessee hereby consents to State engaging in the activities set forth with particularity below, and Lessee waives any claim for damages, now existing or arising hereafter, relating to the following activities:

- (a) Thinning including but not limited to precommercial thinning, commercial thinning, and slashing and thinning of hardwoods.
- (b) Spraying and application of pesticide, herbicide and/or fertilizer.
- (c) Burning and/or piling of slash or other material.

- (d) Harvesting of timber including but not limiting to clear cutting, pole sales, select cut, or by any method other determined by State.
- (e) Building and maintenance of roads and hauling of timber.
- (f) Harvesting of special forest products including but not limited to cedar boughs, salal, and/or mushrooms.
- (g) Planting and harvesting crops.
- (h) Selling, extraction, crushing, stockpiling, and transportation of sand, gravel, and rock and other mining related activities.

SECTION 6 MANAGEMENT

6.01 Management. The Property and all improvements thereon shall be managed and maintained in accordance with customary standards of the industry, and the Lessee shall perform all work and furnish all labor, equipment and materials sufficient for the discovery and efficient production of oil, gas and associated substances. All drilling, production, handling and transportation of oil, gas and associated substances will be done in such a manner so as to prevent waste of resources.

6.02 Production agreements. Without written consent of State, Lessee shall not enter into any agreement limiting, restricting, prorating, or otherwise affecting the production from the Property.

6.03 Suspension of Production. Should any well drilled on the Property produce oil, gas or associated substances in paying quantities, but Lessee is unable to establish a satisfactory market for any of them, State may permit suspension of production until Lessee establishes a satisfactory market. This Agreement shall remain in effect during period of suspension as though oil, gas and associated substances were being produced from the Property.

6.04 Plan of Operations. Lessee shall conduct all activities on the Property pursuant to the approved Plan of Operations, which shall become part of the Agreement and attached as an exhibit to this Agreement. No activities may be conducted on the Property unless they are part of an approved Plan of Operations. Any change in operations shall require a change in the Plan of Operations and must be approved in advance by the State. The Plan of Operations shall be consistent with and not interfere with rights of third parties affecting the Property which arose prior to this Agreement and must comply with all applicable federal, state, county, and other local regulations.

The Plan of Operations shall address any activity deemed relevant by State (which shall be at State's sole discretion), including but not limited to, the following:

- (1) The type, location, including stratigraphic zones, and schedule of all exploratory

and development activities including but not limited to stratigraphic or exploratory drilling; vibratory and/or explosive seismic operations, or other geophysical investigations; geological investigations and other surface activities.

(2) An Equipment Plan identifying all portable equipment, including drills, to be used on the Property, its location, and the measures to protect soil and water resources in relation to its use.

(3) The proposed location of all roads on or to the Property, pipelines, and power lines and methods to minimize disturbance to the Property from the construction, installation, maintenance and operation of such.

(4) The methods to protect water quality, native vegetation and timber, and fish and wildlife habitat, and archaeological or historical sites.

(5) An Erosion and Storm water Control Plan for all roads, drill sites, facilities, and disturbed areas to insure that operations provide soil stability, and to reestablish the vegetative cover.

(6) A Reclamation Plan detailing reclamation for all surface disturbance. The plan should identify the type and schedule for reclamation which shall be done at the completion of each phase of exploration and/or development, so as to keep the unreclaimed area to the minimum necessary for efficient operations. Surface disturbance due to seasonal exploration or production work shall be reclaimed at the end of each exploration or operations season.

(7) The type of construction, purpose and location of all proposed improvements, including subsurface improvements, shall be identified by the Lessee in a Development Plan and approved by State in writing as required by Section 10 of this Agreement.

(8) The methods employed to plug and abandon all drill holes.

(9) Methods to eliminate subsidence from operations associated with the Permitted Use.

(10) Methods to gather, store, transport and develop of the pool area.

(11) Methods to control noxious weeds.

(12) Any mitigation measures deemed appropriate as a result of a SEPA review.

6.05 Drilling Requirements - Well. The Lessee shall drill wells in a reasonable and prudent manner to protect the State from loss by drainage resulting from production on adjacent or cornering lands and shall comply with the rules and regulations of the Oil and Gas Conservation Act (Chapter 78.52 RCW). The Lessee shall drill such additional wells at such times and places as are necessary

to the proper development and commercial production of the oil and gas content of the Property.

6.06 Development Unit. Lessee, upon obtaining approval from the State, may grant or join the Property or any portion thereof with other lands in the immediate vicinity of the Property into a development unit.

The State and the Lessee, if jointly agreed upon, may alter terms and conditions of this Agreement or any portion thereof and segregate that portion of the Property being placed within a unit that permits the Lessee to properly develop and operate within a unit. The creation of a temporary unit shall not exhaust the rights of the Lessee hereunder to place the Property or additional portions thereof into other units. The Lessee shall file with the State plans describing the development unit. Production shall be allocated in accordance with the Oil and Gas Conservation Act.

6.07 Reclamation. Within three months after the completion, plugging or abandonment of a well or any surface disturbance, Lessee shall fill all excavations, remove all equipment and reclaim the area in accordance with the approved reclamation plan unless otherwise specified by State.

6.08 Lessee's Repairs, Alteration, and Maintenance. Lessee shall, at its sole cost and expense, keep and maintain the Property and all improvements thereon and all facilities appurtenant thereto (regardless of ownership) in good order and repair and safe condition for the safe conduct of any activities or enterprises conducted on the Property pursuant to this Agreement and keep and maintain the whole of the premise, including all improvements, in a clean, sanitary and attractive condition.

6.09 Weed Control. Lessee shall be responsible for, or shall immediately reimburse State for, any noxious weed control cost incurred as a result of Lessee's failure to control noxious weeds on the Property.

6.10 State's Repairs. State shall not be required or obligated to make any changes, alterations, additions, improvements, or repairs in, on, or about the Property, or any part thereof, during the term of this Agreement.

6.11 Transfer of Permits. Upon surrender, expiration, or cancellation of the Agreement, at State's request, Lessee shall assign and convey permit(s) obtained by Lessee in association with performance of this Agreement to State or its designee without charge to State. Lessee hereby consents to the transfer of such permits by the appropriate governmental agency.

SECTION 7 SPECIAL RESTRICTIONS

7.01 Compliance with Laws. Lessee shall comply with and conform to all applicable laws, including but not limited to the Oil And Gas Conservation Act now in place and as may be amended or hereafter created, permits, orders or requirements of any public authority affecting the Property and the use thereof and shall correct at the Lessee's own cost and expense any failure of compliance created through the Lessee's omission, failure, or fault or by reason of the Lessee's use or occupation

of the Property. In no event shall Lessee undertake or suffer any activity to be conducted upon the Property which constitutes a nuisance which is a threat to the health or welfare of the general public or is a violation of environmental laws or regulations. Lessee shall cause all work on the Property and all business conducted thereon during the Term to be performed in accordance with all applicable laws and all directions and regulations of all governmental agencies and the representatives of such agencies having jurisdiction.

7.02 Valuable Materials. Lessee shall remove no valuable material, as defined in RCW 79.02.010(12) including timber, without prior written approval of the State.

7.03 Permits. Lessee shall obtain and keep in force all permits, licenses, permissions, consents, and approvals required to be obtained from governmental agencies or third parties in connection with Lessee's permitted use, including construction of any improvements, changes, alterations, additions, repairs, or maintenance to the Property ("Permits"). Application for such Permits shall be at the sole risk, cost and expense of Lessee. Copies of Permits shall be supplied to State upon request.

7.04 Seismic surveys. Lessee shall not engage in seismic surveys, drilling, development and production within 200 feet of any type 1, 2, 3 or 4 waters and wetlands as defined by Chapter 222-16 WAC and Chapter 344-12 WAC.

7.05 Deleterious Material. Lessee shall not make, or suffer to be made, any filling in of the Property or any deposit of refuse, garbage, waste matter, chemical, biological or other wastes, hydrocarbons, any other pollutants, or other matter within or upon the Property, except as approved in writing by the State. If the Lessee shall fail to remove all non-approved material, refuse, garbage, wastes or other of the above materials from the Property, the Lessee agrees that the State may remove such materials and charge the Lessee for the cost of removal and disposal.

7.06 Hazardous, Toxic, or Harmful Substances.

(1) Lessee shall not keep in, on, or about the Property, any substances now or hereinafter designated as or containing components now or hereinafter designated as hazardous, toxic, dangerous, or harmful, and/or which are subject to regulation as hazardous, toxic, dangerous, or harmful by any federal, state or local law, regulation, statute or ordinance (hereinafter collectively referred to as "Hazardous Substances") unless such are necessary to carry out Lessee's permitted use under Section 3. Materials identified as toxic or hazardous are to be transported, stored and handled in accordance and compliance with the provisions of applicable federal, state, and local law, including but not limited to, 42 U.S.C. 6901 et. seq. (RCRA), 42 U.S.C. 9601 et. seq. (CERCLA), Chapters 70.105 and 70.105B RCW, and related laws, rules, and regulations now in existence or as subsequently enacted or amended.

(2) Lessee shall:

(i) Immediately notify the State of (1) all spills or releases of any Hazardous

Substance in, on, about, or adjacent to the Property, (2) all failures to comply with any federal, state or local law, regulation or ordinance, as now enacted or subsequently enacted or amended insofar as such relate to Hazardous Substances in, on, about, or adjacent to the Property, (3) all inspections of the Property by, or any correspondence, orders, citations, or notifications from any regulatory entity concerning Hazardous Substances in, on, about, or adjacent to the Property, (4) all regulatory orders or fines or all response or interim cleanup actions taken by or proposed to be taken by any government entity or private party in, on, about, or adjacent to the Property, and

(ii) Provide copies to the State of any and all correspondence, pleadings, and/or reports received by or required of Lessee or issued or written by Lessee or on Lessee's behalf with respect to the use, presence, transportation or generation of Hazardous Substances in, on, about, or adjacent to the Property.

(3) Lessee shall be fully and completely liable to State, and shall indemnify, defend with counsel acceptable to State, and save harmless State and its agencies, employees, officers and agents with respect to any and all damages, costs, fees (including attorneys' fees and costs), penalties (civil and criminal), and cleanup costs associated with or imposed as a result of Lessee's use, disposal, transportation, generation and/or sale of Hazardous Substances or that of Lessee's employees, agents, assigns, sublessees, contractors, subcontractors, licensees or invitees, and for any breach of this Subsection 7.06.

7.07 Protection. The occurrences listed below have been noted within the Property. Before entry or commencement of any exploration activities, the Lessee shall contact the agency or agencies listed for location and protection requirements.

(a) *No surface disturbance is permitted on all, or portions, of the Property. While surface entry may be permitted under an approved Plan of Operation, no disturbance of the surface will be allowed.*

(b) *Special animals have been identified on the Property. Prior to commencing preliminary investigations, the Lessee shall contact the regional Washington Department of Fish and Wildlife biologist for the location and steps to reduce impact to the animals.*

(c) *Special plants have been identified on the Property. Prior to commencing preliminary investigations, the Lessee shall contact the Forest Resources Division, Department of Natural Resources, Olympia, Washington 98504-7017 for location and steps to reduce impacts to the plants.*

(d) *Cultural/ resources have been identified on the property. Prior to commencing preliminary investigations, the Lessee shall contact Office of Archaeology and Historic Preservation, Olympia, Washington 98504-8343 for location and steps*

to avoid or reduce impacts to the sites.

USE ONLY FOR LANDS COVERED BY THE HCP

7.08 Compliance with the Habitat Conservation Plan (HCP). State has entered into a Habitat Conservation Plan (HCP) with the U.S. Fish and Wildlife Service and National Marine Fisheries Service (the Services) to address state trust land management activities and compliance with the federal Endangered Species Act. The lease activities are located within State's HCP area (Permit Lands) and are subject to the terms and conditions of the HCP, Incidental Take Permit No. PRT-812521 (ITP), Exhibit A, and the HCP requirements, if any, that are set forth in Exhibit B which may be modified from time to time to comply with HCP requirements for species covered by the ITP. All HCP materials, including the ITP, are available for review at State's Region Offices and the administrative headquarters in Olympia, Washington.

By signing this Agreement, Lessee shall comply with the terms and conditions of the ITP and the HCP for oil and gas activities on Permit Lands. If the Lessee's oil and gas activities comply with the terms and conditions of Exhibit A and B, Lessee's actions will be deemed in compliance with the HCP. Non-compliance with the terms and conditions of the HCP and ITP will be deemed a breach of this Agreement and may subject the Lessee to liability for violation of the Endangered Species Act.

All road use, construction, reconstruction and/or maintenance on the Property must comply with the current HCP requirements and with Region road guidelines and may be restricted or not permitted at certain times of the year. Any Forest Practices Permit application submitted for activities on the Property must comply with the ITP and HCP and identify that the Property is within an area covered by a Habitat Conservation Plan and part of Incidental Take Permit No. PRT 81521.

Lessee shall communicate to all employees, contractors or agents, who are or will be conducting activities on the Property, that the Property is subject to HCP requirements.

SECTION 8 INSURANCE, TAXES, INDEMNITY, PERFORMANCE SECURITY

8.01 Insurance Requirements

(1) Evidence of Insurance: Lessee must furnish evidence of insurance in the form of a Certificate of Insurance satisfactory to the State, executed by a duly authorized representative of each insurer showing compliance with the insurance requirements set forth below. The Certificate of Insurance must reference the Department of Natural Resources and Agreement number.

(2) Cancellation: The Certificate(s) of Insurance must provide 45 days written notice to State before the cancellation, non-renewal, or material change of any insurance coverage included therein. Notices must be sent to State's _____ office via certified mail.

(3) Additional Requirements:

- (a) All policies must name the State of Washington, Department of Natural Resources, as an additional insured.
- (b) All insurance policies must include Other Insurance provisions that indicate Lessee's policy provides primary insurance coverage.
- (c) All insurance policies must provide liability coverage on an **occurrence** basis unless otherwise specified in this Agreement.
- (d) Policies must be issued by an insurer admitted and licensed by the Insurance Commissioner to do business in the State of Washington. Excess or "surplus lines" carriers must be approved in advance by the Risk Manager (or other authorized representative) for State. All insurers must have a Best's rating of B plus (B+) or better.

(4) Minimum Coverage Requirements: The Minimum Coverage Requirements set forth the *minimum* limits of insurance the Lessee must purchase to secure agreement with State. These limits may not be sufficient to cover all liability losses and related claim settlement expenses. Purchase of these minimum limits of coverage does not relieve the Lessee from liability for losses and settlement expenses greater than these amounts.

During the term of this Agreement, Lessee must purchase and maintain, and shall require all independent contractors to maintain while performing work on the Property, the minimum insurance coverages and limits specified below, which may be increased by State at its sole discretion:

- (a) Commercial General Liability (CGL) Insurance. Lessee must purchase and maintain CGL on an Insurance Services Office (ISO) form CG 00 01 or equivalent form, covering liability arising from Property, operations, independent contractors, personal injury, and liability assumed under an insured contract. Such insurance must be provided on an occurrence basis. Insurance must include liability coverage with limits not less than those specified below:

Description

Each Occurrence Limit	\$1,000,000
General Aggregate Limit	\$2,000,000

- (b) Business Auto Policy (BAP) Insurance (required for all contracts). The Lessee must purchase and maintain a BAP on an Insurance Services Office (ISO) form CA 00 01 or equivalent form. The Description of Covered Autos must include one or more of the following:

"Any Auto" (Symbol 1), "Hired Autos Only" (Symbol 8), "Non-Owned Autos" (Symbol 9).

Such insurance must be provided on an occurrence basis. The BAP insurance must include liability and physical damage coverage with limits not less than those specified below. The Lessee is responsible for any deductible.

<u>Description</u>	<u>Each Accident</u>
Bodily Injury and Property Damage	\$1,000,000

(c) Worker's Compensation and Employer's Liability Insurance: The Lessee must purchase and maintain insurance covering obligations imposed by Federal and State statutes having jurisdiction of its employees in the performance of work, including Employer's Liability Insurance. Evidence of "Qualified Self-Insurance Status" will suffice to meet the requirements of this section.

<u>Each Employee</u>	<u>Policy Limit</u>	<u>By Accident</u>	<u>By Disease</u>	<u>By Disease</u>
<u>Description</u>				
Bodily Injury	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000

(d) Builder's Risk Insurance:

(i) At State's request, during the period construction is in progress and until completion of the project and acceptance by State, Lessee shall buy and maintain in force builder's risk insurance on the entire work. Such insurance shall be written on a completed value form and in any amount equal to the value of the completed building, subject to subsequent modifications to that sum. The insurance shall be written on a replacement cost basis. This insurance shall name as insured the Department of Natural Resources, Lessee and all subcontractors and sub-subcontractors in the work.

(ii) Insurance required in paragraph (i) shall be written to cover all risks of physical loss except those specifically excluded in the policy, including loss or damage caused by collapse.

(iii) Insurance required in paragraph (i) shall cover the entire work at the site, including reasonable compensation for architect's services and expenses made necessary by an insured loss. Insured property shall include portions of the work located away from the site but intended for use at the site, and shall also cover portions of the work in transit.

(iv) The policy shall include as insured property scaffolding, false

work, and temporary buildings located at the site. The policy shall cover the cost of removing debris, including demolition as made legally necessary by the operation of any law, ordinance, or regulation.

(v) Any deductible applicable to the insurance bought in compliance with paragraph (i) shall be identified in the contract documents and the responsibility for paying the part of any loss not covered because of application of deductible(s) shall be the responsibility of the Lessee. If any part of any loss is not covered because of the application of a deductible amount not identified in the contract documents, such loss will be paid by Lessee.

OPTIONAL CLAUSE

e. Self-Insurance. In lieu of the coverages required under this section entitled "insurance Requirements", the State at its sole discretion, may accept evidence of self-insurance by the Lessee, provided the Lessee provides the following:

(1) Lessee shall provide a statement by a CPA or actuary, satisfactory to the State, that demonstrates Lessee's financial condition is satisfactory to self-insure any of the required insurance coverages.

(2) State may require Lessee to provide the above from time to time to ensure Lessee's continuing ability to self-insure. If at any time the Lessee does not satisfy the self-insurance requirement, Lessee shall immediately purchase insurance as set forth under this section entitled 'Insurance Requirements.'

Aside from any 'self-insurance' guaranteed by the Lessee, it is the responsibility of the Lessee to ensure that its contractors, concessionaires, agents, employees, guests, invitees, or affiliates in, on, under, or above the Property, any adjoining property, or any other property subject to use by Lessee in conjunction with its use of the Property, meet minimum insurance requirements described above

8.02 Taxes and Assessments.

(1) Leasehold Tax. Should a leasehold tax be imposed on this Agreement or any interest therein, from the Commencement Date and continuing throughout the Term, Lessee shall pay the leasehold tax as set forth in RCW Chapter 82.29A - Leasehold Excise Tax or as may be amended. The tax shall be due and payable at the same time the rental charged herein is due. Failure to pay said tax when due shall be considered a breach of this Agreement. Any delinquent taxes shall be a debt to the State and in the event the State is subject to any penalties or interest because of the failure of the Lessee to pay such taxes, such penalties and interest shall be payable by the Lessee to the State and shall be considered a debt to the State. In the event the State suffers any costs of

whatsoever nature, including attorney fees, or other costs of litigation in collecting said tax, such costs shall be payable by the Lessee and shall be considered a debt due and owing to the State by the Lessee.

(2) Property Taxes. Lessee shall pay during the term of this Agreement all taxes and other governmental charges of any kind applicable or attributable to the Property, Lessee's leasehold interest therein, improvements thereon, and Lessee's use and enjoyment thereof.

(3) Assessments. Lessee shall pay the total amount of all assessments that are legally required to be paid now or may be charged during the Term to the Property or the improvements thereon. Lessee shall not cause or suffer the imposition of any assessment upon the Property without the prior written consent of State. In the event any new assessment is proposed which affects the Property, Lessee shall immediately notify State of such proposal after Lessee has knowledge or receives notice thereof. Any assessment upon the Property shall be made in compliance with all applicable statutes, including, but not limited to, Chapter 79.44 RCW. Payment for assessments shall be made as directed by State.

(4) Payment Date and Proof. The Lessee shall pay all taxes and/or assessments when due. Lessee shall, if required by State, furnish to State receipts or other appropriate evidence establishing the payment of such amounts.

8.03 Indemnity. From and after the Commencement Date of this Agreement, the Lessee shall indemnify, defend (with counsel acceptable to State) and hold harmless State, its employees, officers, and agents from any and all liability, damages (including, but not limited to, personal injury and damages to land and other natural resources), expenses, causes of action, suits, claims, costs, fees (including, but not limited to, attorneys' fees), penalties or judgments, of any nature whatsoever, arising out of the use, occupation, or control of the Property by Lessee, Lessee's sublessees, invitees, agents, employees, licensees, or permittees except as may arise solely out of the willful or gross negligent act of State or State's elected officials, employees, or agents. To the extent that RCW 4.24.115 applies, Lessee shall not be required to indemnify, defend, and hold State harmless from State's sole or concurrent negligence. This section shall not in any way limit Lessee's liability under Subsection 7.06 (Hazardous, Toxic, or Harmful Substances). Lessee waives its immunity under Title 51 RCW to the extent it is required to indemnify, defend and hold harmless State and its agencies, officials, agents or employees.

8.04 Performance Security. The Lessee agrees, prior to conducting any operations under this Agreement, to furnish a performance security with an approved corporate surety company authorized to do business in the State of Washington, or such other surety as may be acceptable to the State in an amount reasonably calculated by State to assure payment of all rents, royalties, or other payments due the State. Such performance security shall be conditioned upon the payment of such royalties, and upon the full compliance with all other terms and conditions of this Agreement and laws and regulations relating thereto. The amount of the required performance security may be increased in such reasonable amounts as State may decide. The performance security shall also be

conditioned upon payment of damages to the owner of surface rights and improvements, including the State.

SECTION 9 SUBLEASES AND ASSIGNMENTS

9.01 Sublease. The Property, in whole or in part, and appurtenances thereon shall not be subleased without written approval from the State. If approved, Lessee shall remain obligated for all actions on the Property including compliance with all provisions contained in this Agreement.

9.02 Assignment. Lessee shall not hypothecate, mortgage, assign, encumber, transfer, or otherwise alienate this Agreement, or any interest therein or engage in any other transaction which has the effect of transferring or affecting the right of enjoyment of the Property without the prior written approval of the State. Each permitted assignee, or transferee of Lessee shall assume and be deemed to have assumed all obligations of Lessee under this Agreement.

9.03 Approval of Sublease or Assignment. Except for events of hypothecation, mortgage, or where otherwise restricted by law, in granting such approval in Subsections 9.01 and 9.02, State reserves the right to change the terms and conditions of this Agreement as it may affect the sublessee/assignee. The State shall be entitled to consider, among other items, the proposed sublessee's/assignee's financial condition, managerial capability, business reputation, nature of the proposed sublessee's/assignee's business, the then current fair market rental value of the Property, and such other factors as may reasonably bear upon the suitability of the sublessee/assignee or transferee as a tenant of the Property or the holder of this Agreement.

9.04 Cost. The State may require reimbursement for any additional administrative costs resulting from the assignment.

9.05 No Waiver. Consent of the State to an assignment or transfer shall not constitute a waiver of the State's right to approve subsequent assignments or transfers. The acceptance by State of payment or performance following an assignment or transfer shall not constitute consent to any assignment or transfer, and State's consent shall be evidenced only in writing.

9.06 Corporations, General Partnerships, Limited Partnerships. If Lessee is a corporation, any merger consolidation, liquidation, or any change in ownership or the power to vote the majority of its outstanding voting stock, shall constitute an assignment, whether the result of a single transaction or a series of transactions. If Lessee is a general partnership, the death, withdrawal or expulsion of a partner or partners owning, or transfer of interests representing, in the aggregate more than fifty percent (50%) of the partnership profits or capital shall constitute an assignment, whether the result of a single transaction or a series of transactions. If Lessee is a limited partnership, the death, withdrawal or expulsion of any general partner shall constitute an assignment.

SECTION 10 IMPROVEMENTS

10.01 Authorized Improvements. No improvement shall be placed on the Property without the prior written consent of the State. Consent shall be granted through this Agreement or written Letter of Authorization issued by the State. All improvements on the Property belong to the State except those Lessee authorized improvements which, if any, are listed in Exhibit ____ and/or subsequent exhibits as provided for by Letters of Authorization issued by the State.

10.02 Development Plan. Prior to any development or the construction of any and all improvements, the Lessee must submit a completed Development Plan to the State for its written approval. The plan shall include, but is not limited to, the following:

- (1) Map showing areas to be developed, location of improvements and location of utility and other easements.
- (2) Land clearing, leveling and erosion control plans.
- (3) List of proposed improvements with detailed plans for the improvements.
- (4) Estimated itemized cost of proposed improvements.
- (5) Schedule of completion dates for proposed improvements.

After completion of construction, Lessee shall provide to State "as-built" drawings showing the exact location of all facilities and pipelines. In case of incomplete improvements or development, Lessee shall restore the land to its original condition if the State determines it to be in the best interest for managing the land.

10.03 Unauthorized Improvements. All improvements not included in the original or amended Development Plan as approved by the State, or as provided for by Letters of Authorization issued by the State, made on or to the site, without the written consent of the State shall immediately become the property of the State or, at the State's option, may be required to be removed by the Lessee at the Lessee's sole cost.

10.04 Severance of Improvements not on State Land. If any of the Lessee's authorized improvements that are or have become the property of the State utilize, in addition to State land, other adjoining lands not owned by the State, the State shall have at the expiration, termination, cancellation, surrender of the leasehold or at the end of the period for removal, if applicable, the right to enter upon adjoining land to physically sever at the ownership boundary, without liability for damage as a result thereof, the improvements; thereafter, to use the severed improvements remaining on State land for any purpose.

10.05 Disposition of Authorized Improvements. The Lessee shall remove all authorized improvements owned by Lessee within thirty days of the expiration or earlier non default termination of the Agreement without injury to the Property unless Lessee is granted an extension of time where forces beyond Lessee's control prevent such removal within thirty days. In the event Lessee fails to remove the Lessee owned improvements as set forth above, the State may at its option have the improvements removed at Lessee's expense or the improvements shall become the property of the State.

10.06 Condition at End of Agreement Term. Prior to vacating the Property, the Lessee shall leave the Property and all State owned improvements thereon in the state of repair and cleanliness

required to be maintained by Lessee during the term of this Agreement. Lessee shall peaceably and quietly surrender the same to State.

10.07 Surety Bond. A surety bond, savings account assignment, or letter of credit may be required to assure completion of construction or development and removal of any improvements costing in excess of \$2,500.

SECTION 11 ROADS

11.01 Across Property. The Lessee is authorized, subject to the approved Plan of Operation and surface rights previously granted, to use existing roads on the Property needed for operations under this Agreement. The Lessee may, with written approval of State, construct additional roads needed for operations on the Property. Construction and maintenance activities shall meet or exceed Forest Practices Board standards (Chapter 222-24 WAC). Lessee shall comply with the terms set forth herein when using the roads.

11.02 Access To Property. Access to the Property shall be as follows:

USE ONE OF THE FOLLOWING (1) PARAGRAPHS AND, IF APPLICABLE, PARAGRAPH (2):

1. Lessee is hereby granted a nonexclusive right to use existing road(s) over and across the location legally described on exhibit ____ and shown on the map(s) attached as exhibit ____ for the purpose of exercising the rights under this Agreement according to the terms set forth herein.

1. Lessee is hereby granted a nonexclusive right to construct and use a new road over and across the location legally described in exhibit ____ and shown on the map(s) attached as exhibit ____ for the purpose of exercising the rights under this Agreement according to the terms set forth herein.

1. State has no legal access to the Property. Lessee must obtain legal access before entering the Property. In any such agreement, Lessee must provide for access by State to exercise its rights under this Agreement. Lessee shall submit to State in writing, any agreements to obtain legal access to the Property.

2. Easement. The Lessee is authorized to use an easement between the State and dated _____, 20__ over property legally described in exhibit ____ and agrees to comply with all the terms and conditions of the said agreement, filed under Auditor File No. and attached as exhibit ____.

11.03 Term. The rights granted in this Section shall last only until this Agreement expires or is terminated as provided herein.

11.04 Road Repair. The Lessee shall repair or cause to be repaired at its sole cost and expense that damage to said road(s) occasioned by it which is in excess of that which it would cause through

normal and prudent usage of said road(s). Within fifteen (15) days of the damage, the Lessee shall meet with the State and provide a plan of operation for the repairs.

11.05 Joint Road Maintenance. The cost of road maintenance and resurfacing shall be allocated on the basis of respective uses of said road. Where either party hereto uses a road, or portion thereof, that party shall perform or cause to be performed, or contribute or cause to be contributed, that share of maintenance and resurfacing occasioned by such use as hereinafter provided. During periods when a road is being used solely by one party, such party shall maintain that portion of said road so used to the standards equal to or better than those existing at the time use is commenced; provided the State reserves the right to make reasonable allocations concerning priority of use and maintenance of said roads by it and others.

During periods when more than one party is using the same road, or any portion thereof, the parties hereto shall meet and establish necessary maintenance provisions. Such provisions shall include, but shall not be limited to:

1. The appointment of a maintainer, which may be one of the parties hereto or any third party, who will perform or cause to be performed at a reasonable and agreed upon rate the maintenance and resurfacing of the road or the portion thereof being used; and
2. A method of payment by which each party using said road or a portion thereof, shall pay its pro rata share of the cost incurred by said maintainer in maintaining or surfacing said road or portion thereof.

11.06 Improvements. Lessee shall construct no road improvements without the prior written consent of State. Unless the parties agree in writing to share the cost of improvements, improvements shall be at the sole expense of the improver. Any improvements to road areas shall become property of the State upon expiration or termination of the Agreement.

11.07 Road Fee. Lessee shall pay any road use or maintenance fees, including but not limited to the Access Road Revolving Fund fees established by State.

11.08 Insurance. The provisions under Subsections 8.01 and 8.03 shall apply to the Lessee's use of the roads and easements authorized herein.

OPTIONAL

11.9 Gates. Lessee shall *[maintain the locked gate]**[install a gate and lock to the specifications of State as approved in the Plan of Operations [by _____] [before _____]]* on _____ road(s) as identified in exhibit _____ to prevent unauthorized trespass onto the Property.

SECTION 12 CONDEMNATION

If all of the Property is taken by any lawful authority under the power of eminent domain for a period which will end on or extend beyond the expiration of the term of this Agreement, this Agreement terminates as of the date the condemner takes possession. If part of the Property is taken by any lawful authority under the power of eminent domain for a period which will end on or extend beyond the expiration of the term of this Agreement, the State or Lessee may choose to terminate this Agreement as of the date the condemner takes possession. If either the State or Lessee elects to terminate this Agreement, the rents or other charges to be paid by Lessee will be apportioned by the State and paid by the Lessee to the date of taking. If neither the State nor Lessee elects to terminate this Agreement, the rent will be reduced in the same proportion that the value of the portions of the site to be taken bears to the value of the entire site as of the date condemner takes possession. If the taking is for a period which will end on or extend beyond the expiration of the term of this Agreement, Lessee will have no claim or interest in or to any award of damages for the whole or partial taking of the site, except that the Lessee will be entitled to an amount equal to the fair market value of any improvements as of the date of taking (except trade fixtures) considered by this Agreement to be owned by the Lessee taken by the condemner. If temporary use of all or part of the site is taken by any lawful authority under the power of eminent domain for a period ending before the expiration of the term, this Agreement will continue in full force and Lessee will be entitled to receive any award from the condemner for the use of all or part of the Property. The State and Lessee will give to the other immediate written notice of any proceedings with respect to a condemnation and of any intentions of any authority to exercise the power of eminent domain.

SECTION 13 DEFAULT

13.01 Default. If Lessee fails to pay the rent or royalty required under the Agreement within the time prescribed therein, the Lessee shall automatically forfeit the Agreement and all rights thereunder without any need for notice of the default as set forth under RCW 79.14.090. If Lessee breaches or defaults on any undertaking, promise or performance, other than the payment of rent or royalty, called for herein, the State may cancel this Agreement after the Lessee has been given thirty (30) days notice of default and intent to cancel, and such breach or default has not been corrected within such time. If the Lessee shall, within thirty days of mailing the notice, commence and thereafter diligently and in good faith prosecute the remedy of the default, then no cancellation shall occur. Upon cancellation for default, all improvements on the Property shall, at State's option, (1) be forfeited and become the property of the State subject only to any previously approved waiver of interest or security interest or (2) be removed from the Property at the Lessee's sole cost. The State may seek damages for any and all violations or defaults with or without canceling this Agreement. In the event State deems the breach or default to constitute a threat to safety, life, or property it may elect to intervene immediately, without notice, to remedy the breach or default, and Lessee hereby agrees to repay State for all costs incurred to remedy the breach or default upon demand, together with interest thereon from the date of expenditure at the rate set forth in this Agreement. Alternatively, State may require Lessee itself to act immediately to remedy the breach or default should State deem it a threat to safety, life, or property.

13.02 Survival. All obligations of Lessee to be performed prior to the expiration or earlier termination shall not cease upon the termination or expiration of this Agreement, and shall continue as obligations until fully performed. All clauses of this Agreement which require performance beyond the termination or expiration date shall survive the termination or expiration date of this Agreement. However, upon expiration or earlier termination of this Agreement, the rights of Lessee and of all persons, firms, corporations, and entities claiming under Lessee in and to the Property and all improvements thereon, unless specified otherwise in this Agreement, shall cease.

13.03 State's Right to Cure Defaults. If Lessee fails to perform and is in default of any undertaking or promise contained herein, including those set forth in any plan of development, the State shall have the option, but is not obligated, to make such performance after giving 10 days written notice to the Lessee. The State's costs and expense to correct Lessee's failure to perform shall be reimbursed by Lessee and shall be immediately due and payable, together with interest accruing from the date such cost or expense is incurred.

13.04 Remedies Cumulative. The specified remedies to which the State may resort under the terms of this Agreement are cumulative and are not intended to be exclusive of any other remedies or means of redress to which State may lawfully be entitled in case of any breach or threatened breach by Lessee of any provision of this Agreement.

13.05 Force Majeure. The Lessee's failure to comply with any of the obligations under this Agreement shall be excused only if due to causes beyond Lessee's control and without the fault or negligence of the Lessee, including acts of God, acts of the public enemy, acts of any government, fires, floods, epidemics and strikes.

13.06 Attorney Fees and Venue. Each party shall be responsible for their own attorney fees and court costs in the event of a dispute arising out of this Agreement except as set forth in Subsections 7.06 (Hazardous, Toxic, or Harmful Substances); 8.02 (Taxes); 8.03 (Indemnity) and 14.11 (Lessee Liens). Venue for resolving such disputes shall be in Thurston County Superior Court of Washington.

13.07 Nonwaiver. Waiver by the State of strict performance of any provision of this Agreement shall not be a waiver of nor prejudice the State's right to require strict performance of the same provision in the future or of any other provision. The acceptance of performance, rent, or any other sum owing, by State following a breach by the Lessee of any provision of this Agreement shall not constitute a waiver of any right of the State with respect to such breach, and State shall be deemed to have waived any right hereunder only if State shall expressly do so in writing.

SECTION 14 MISCELLANEOUS

14.01 No Partnership. The State is not a partner nor a joint venturer with the Lessee in connection with the activities conducted and business carried on under this Agreement, and the State shall have no obligation with respect to the Lessee's debts or other liabilities.

14.02 Lessee's Authority. Persons executing this Agreement on behalf of Lessee represent that they are authorized to do so and represent and warrant that this Agreement is a legal, valid, and binding obligation on behalf of Lessee, and is enforceable in accordance with its terms.

14.03 State's Authority. This Agreement is entered into by State pursuant to the authority granted by statute and the Constitution of the State of Washington. The terms and conditions hereof are subject to such statutory and constitutional provisions as may be now in effect and such provisions which do not impair the contractual rights of Lessee under this Agreement which may lawfully be enacted subsequent to the date of this Agreement.

14.04 Preservation of Markers. Any legal land subdivision survey corners, reference points or monuments are to be preserved. If such are destroyed or disturbed, the Lessee shall re-establish them by a licensed land surveyor in accordance with U.S. General Land Office standards at Lessee's expense. Corners and/or reference points or monuments that must necessarily be disturbed or destroyed in the process of carrying out the operations allowed by this Agreement must be adequately referenced and/or replaced in accordance with Chapter 58.09 RCW. Such references and replacements must be approved by the State prior to removal of said corners, reference points or monuments.

14.05 Interpretation and Numbering. This Agreement has been submitted to the scrutiny of all parties hereto and their counsel if desired. The terms in this Agreement shall be given their ordinary meaning unless otherwise defined herein or a generally accepted meaning exists within the industry, and the Agreement shall not be presumptively construed against either party hereto. Section numbers, headings, or titles are for convenience only and are not to be construed to limit or to extend the meaning of any part of this Agreement.

14.06 Time of Essence. Time is expressly declared to be of the essence of this Agreement and each and every covenant of Lessee hereunder. No waiver or consent to any breach or other default in the performance of any of the terms of this Agreement shall be deemed to constitute a waiver of any subsequent breach of the same or any other term or condition hereof. In the event time for performance falls on a weekend or legal holiday designated by the United States or Washington State, performance shall be deemed to be timely if so rendered on the next business day.

14.07 Amendments. Any amendments, revisions, supplements, or additions to this Agreement or the attached exhibits shall be made in writing executed by the parties hereto, and neither State nor Lessee shall be bound by verbal or implied agreements. Such changes may be made by re-execution of the signature page and the deletion and addition of the appropriate new effective pages or exhibits governing the change, if any.

14.08 Entire Agreement. This written Agreement or its successor or replacement contains the entire agreement of the parties hereto with respect to the matters covered hereby, and no other agreement, statement or promise made by any party hereto, or to any employee, officer or agent of any party hereto, which is not contained herein, shall be binding or valid.

14.09 Invalidity. If any term or provision of this Agreement or the application thereof to any person or circumstance shall to any extent prove to be invalid, unenforceable, void, or illegal, the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those as to which it is invalid or unenforceable, shall be not affected thereby, and each term and provision of this Agreement shall be valid and be enforced as written to the fullest extent permitted by law.

14.10 Notices and Submittals. Any notice or submittal given under this Agreement shall be deemed as received when delivered by hand or five (5) days after deposit in the United States registered mail with first-class postage affixed, addressed as noted. Changes of address may be given in accordance with this section. Any notice or submittal given under this Agreement shall be:

To the State:

Where Agreement provisions require submittal to State office:

Department of Natural Resources
Product Sales and Leasing Division
P.O. Box 47016
Olympia, WA 98504-7016

To the Lessee:

Insert name and address

14.11 Liens. Lessee shall not suffer or permit any lien to be filed against Lessee's interest in the Property, any improvements thereon or any production therefrom by reason of work, labor, services or materials performed or supplied to Lessee. If any such lien is filed against Lessee's interest, any improvements thereon or any production therefrom, Lessee shall cause the same to be discharged of record within thirty (30) days after the date of filing the same unless other arrangements are authorized in writing by the State. Lessee shall indemnify the State for any costs, damages or expenses (including attorneys' fees) incurred as a result of the filing of such liens or in obtaining their discharge whether such costs, damages or expenses were incurred prior or subsequent to any cancellation.

14.12 Surrender of Agreement. The Lessee shall have the right of surrendering all or any portion or portions of the Property at any time, if all rental or royalty payments are current and paid up to the time of termination, and all other obligations hereunder are satisfied. Lessee shall exercise this right by giving State sixty (60) days advance written notice of its intent to surrender accompanied by a release of interest and quitclaim for those portions of the Property to be surrendered.

14.13 Well Name and Location. All wells drilled for exploration or production purposes on the Property shall begin with the word "State" in its official name. The Lessee shall, within ten (10) days prior to commencement of drilling, advise the State in writing of the well location, name and date drilling will commence.

14.14 Exhibits. All exhibits now or subsequently attached hereto as provided for in this Lease shall be deemed incorporated into and a part of this Lease.

The Lessee expressly agrees to all covenants herein and binds himself for the payment of the rental hereinbefore specified.

SAMPLE

(NAME OF COMPANY)

Dated: _____, 20____.

(NAME), (Title)
UBI No. _____

**STATE OF WASHINGTON
DEPARTMENT OF NATURAL RESOURCES**

Dated: _____, 20____.

DOUG SUTHERLAND
Commissioner of Public Lands

STATE OF)
)ss
COUNTY OF)

On this ____ day of _____, 20 __, personally appeared before me _____
to me known to be the _____ of the corporation that executed the
within and foregoing instrument, and acknowledged said instrument to be the free and voluntary act
and deed of said corporation, for the uses and purposes therein mentioned, and on oath stated that
he/she/was they were authorized to execute said instrument for said corporation and that the seal
affixed is the corporate seal of the said corporation.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the day and
year first above written.

Dated: _____
Notary Public in and for the State of _____
residing at _____.
My appointment expires _____

**STATE OF WASHINGTON
DEPARTMENT OF NATURAL RESOURCES
Doug Sutherland, Commissioner of Public Lands
Olympia, Washington 98504-7014**

MEMORANDUM OF LEASE

This MEMORANDUM OF LEASE, dated as of the ____ day of _____, 20____, is between the STATE OF WASHINGTON, acting by and through the Washington State Department of Natural Resources (hereinafter called "State") and _____ (hereinafter called "LESSEE").

1. **Property:** State hereby leases to Lessee, upon the terms and conditions of the Lease between the parties (herein called the "Agreement") dated _____, which terms and conditions are incorporated by this reference, the exclusive right to drill for, extract, remove, and dispose of all the oil, gas, and associated hydrocarbon substances from the following described land situated in _____, County, Washington:

2. **TERM:** This Agreement shall commence on _____, and continue to _____, and may be extended for so long thereafter as Lessee shall produce oil, gas, or associated hydrocarbon substances in paying quantities from the Property, or shall be engaged in drilling, deepening, repairing, or redrilling any well thereon, or be excused therefrom by State.

3. **PURPOSE OF MEMORANDUM OF LEASE:** This Memorandum of Lease is prepared for the purpose of recordation, and it in no way modifies the Agreement.

OPTION: This Agreement grants Lessee an exclusion option, with a ten (10) year term, to enter into a Natural Gas Storage Lease for the purpose of conducting underground gas storage operations.

Signed this _____ day of _____, 20_____.

STATE OF WASHINGTON
DEPARTMENT OF NATURAL RESOURCES

DOUG SUTHERLAND
Commissioner of Public Lands

STATE OF WASHINGTON)
) ss
COUNTY OF THURSTON)

On this _____ day of _____, 20____, before me personally
appeared _____ to me known to be the duly appointed
_____ for the Washington State Department of Natural
Resources and that he executed the within and foregoing instrument and acknowledge the said
instrument to be the free and voluntary act and deed of said State of Washington, for the uses and
purposes therein set forth, and on oath states that he was authorized to execute said instrument.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal the
_____ day of _____, 20_____.

Notary Public in and for the State of
Washington, residing at _____.

My commission expires _____.

STATE OF WASHINGTON)

) ss

COUNTY OF THURSTON)

On this _____ day of _____, 20____, personally appeared before me DOUG SUTHERLAND, to me known to be the Commissioner of Public Lands, and administrator of the Department of Natural Resources of the State of Washington, the Department that executed the within and foregoing instrument on behalf of the State of Washington, and acknowledged said instrument to be the free and voluntary act and deed of the State of Washington for the uses and purposes therein mentioned, and on oath stated that she was authorized to execute said instrument and that the seal affixed is the official seal of the Commissioner of Public Lands for the State of Washington.

IN WITNESS WHEREOF, I have hereunto set my hand and seal the day and year first above written.

Notary Public in and for the State of Washington,
residing at _____
My appointment expires _____.